# Financial Reporting Bulletin


**• *Office of Thrift Supervision* •**

**• *Information Systems, Administration, and Finance* • *National Systems* •**

**• *Financial Reporting Division* •**


**It is important that you read this bulletin and the attached materials before submitting your Thrift Financial Report.**

**MARCH 2002**

**TFR DEADLINE INCLUDING SCHEDULE FS – TUESDAY, APRIL 30**

**SCHEDULE HC AND CMR DEADLINE – WEDNESDAY, MAY 15**

## IN THIS ISSUE




The Financial Reporting Division of the Office of Thrift Supervision publishes the Financial Reporting Bulletin quarterly and distributes it to all OTS regulated institutions. The bulletin's purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Please send comments and suggestions on this bulletin to Patrick G. Berbakos, Director, National Systems, Information Systems, Administration & Finance, Office of Thrift Supervision, 1700 G Street, NW, Washington, DC 20552 or by e-mail to patrick.berbakos@ots.treas.gov.

## NEW ELECTRONIC FILING SOFTWARE

OTS EFS Version 3.1.0 will be mailed to all institutions on March 22, 2002. **Please install this new version as soon as it is received.** It contains corrections to several edits as well as many new features.

The new EFS features include:

- Installation of the application files and databases to different directories
- Report preparer notes
- Line item history graph
- Updated edit exception report when all edits pass
- Online transmission problem diagnosis guide
- Downloading of UTPR summary reports

A "What's New" document will appear the first time you initialize the application after installing Version 3.1.0. This document explains the new features in more detail. Please print "What's New" as a reference. The new features are also included in the online Help Guide.

## FIRST QUARTER DEADLINES

You should complete and transmit the March 2002 TFR as soon as possible after the close of the quarter. All schedules except HC and CMR are due no later than Tuesday, April 30, 2002. Schedules HC and CMR are due no later than Wednesday, May 15, 2002.

Savings institutions that are exempt from filing Schedule CMR but choose to voluntarily file **must** follow the same filing deadlines as those institutions that are required to file. Institutions that fail to meet the filing deadline may not receive their interest rate risk reports for the quarter. We advise all voluntary filers to contact Doris Jackson (972-277-9618 or doris.jackson@ots.treas.gov) two days after transmitting their CMR to confirm that OTS received your CMR filing.

If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, Texas, or Trudy Reeves in Washington, DC, at 202-906-7317. If you have a problem with the electronic filing software or transmission, call Cheyann Houts at 972-277-9617 or Doris Jackson at 972-277-9618.

## MARCH 2002 TFR INSTRUCTION MANUAL

March 2002 TFR Instruction Manuals were mailed to all institutions during March. All significant changes to the instructions are marked with a bar in the right margin. Additional copies of the manual are available from our distribution service at (301) 645-6264 at a cost for a one-year subscription of $35. You can also access the manual on our web site at http://www.ots.treas.gov/tfrpage.html.

## SCHEDULE FS – FIDUCIARY AND RELATED SERVICES

We will collect Schedule FS for the first time this quarter. Only a small number of institutions will be required to file this schedule quarterly. The requirements for filing quarterly are that total fiduciary assets are greater than $250 million as of the preceding December 31, **or** gross fiduciary and related services income is greater than 10% of net interest income plus noninterest income for the preceding calendar year. All institutions that have been granted fiduciary powers and that exercise those powers must file Schedule FS annually in December. Schedule FS is due no later than 30 days after the end of the quarter, or for the March 31st quarter, by Tuesday April 30th.

## CMR OPTIONAL DEPOSIT INFORMATION NOW REQUIRED

Attached to this bulletin are two revised pages of the TFR form, Schedule CMR, pages 35 and 37. This revision changes the following fields from optional to required:

Fixed-rate, Fixed-maturity Deposits: Early Withdrawals During Quarter
CMR604, 618, 633, and 642

Memo: Fixed-rate, Fixed-maturity Deposit Detail: Balances in New Accounts
CMR659, 660, and 661

Nonmaturity Deposits: Balances in New Accounts
CMR764, 767, 770, and 773

Those institutions that did not previously report these amounts and do not currently have systems readily available to generate these amounts should provide the best data possible by means of estimation. However, these institutions should provide systems to produce accurate data for these data items in future reporting cycles. The revised instructions for these lines are included in the new TFR Instruction Manual.

## SOFTWARE CORNER

### Institution Setup

It is very important that you review and update when necessary the information in the Institution Setup tab from the main Startup Screen. We use the information that you provide to send out mailings to report preparers. Please verify that all information on your institution and your report preparer is current each time you transmit to OTS.

### Providing EFS to Service Bureaus

We provide EFS filing software only to the savings institutions we regulate. If you have an agreement with a service bureau, we have no objection to your providing the software to that service bureau for purposes of assisting you in the preparation and timely filing of OTS reports.

## NEW CAPITAL RULE FOR RECOURSE AND RESIDUALS

New rules for treatment of recourse exposures and residual interests took effect on January 1, 2002 for new transactions. For transactions that were entered into before January 1, 2002, the effective date for the new rules is December 31, 2002. Refer to Q&A Nos. 157 and 158 in this Bulletin, to the new 2002 TFR Instruction Manual, and to 12 CFR part 567.

# Questions & Answers

***We post TFR Questions and Answers on the OTS web site at www.ots.treas.gov/tfrqanda.html. If you have a question that you would like posted, please submit it to tfr.instructions@ots.treas.gov.***

**Q&A No. 156**

**SUBJECT: Small Business Loan Limit for QTL**
**LINE(S): SI581, 582 and 583**
**DATE: March 20, 2002**

***Question:*** *According to an OTS release from Thursday, December 20, 2001 on the Internet at www.ots.treas.gov/docs/77187.html, OTS has raised the dollar limit in the definition of small business loans under (HOLA) from $1 million to $2 million. For purposes of reporting the Qualified Thrift Lender Test on TFR Schedule SI lines SI581 through SI583, should we now consider "Small Business Loans" as commercial loans that are $2 million or less?*

**Answer:** Yes, for QTL purposes, small business loans are now $2 million or less. However, the definition of small business loans in Schedule SB will remain unchanged from previous periods.

**Q&A No. 157**

**SUBJECT: Purchased Subordinated Securities**
**LINE(S): Schedules SC, CC, and CCR**
**DATE: March 20, 2002**

***Question:*** *We recently purchased a $200 subordinated "second loss" mortgage-backed security. Our security is part of a $1,000 security structure, along with a $700 senior security and a $100 "first loss" position, both which are owned by unaffiliated third parties. With respect to risk-based capital, the $200 subordinated security is rated "BB" under the specific criteria of the ratings-based approach in 12 CFR part 567. The security qualifies for the ratings-based approach pursuant to 12 CFR Part 567.6, and the 200% risk-weight applies. How do we report amounts related to the security on the TFR?*

**Answer:** An instrument such as this provides credit enhancement to other instruments, and is subject to specialized regulatory capital treatment. Therefore, in addition to reporting on Schedule SC, you should report amounts related to this instrument on Schedules CC, SI, and CCR, as follows.

**Schedule SC**

You should report the $200 subordinated security on line SC150, "Mortgage Derivative Securities".

**Schedule CC**

You should report the $200 subordinated security on line CC465, "Amount of Direct Credit Substitutes on Assets in CC455". In addition, you should report $900 ($200 + $700) on line CC455, "Total Principal Amount of Off-Balance-Sheet Assets Covered by Recourse Obligations or Direct Credit Substitutes".

**Schedule SI**

You should report the $200 subordinated security on line SI404.

**Schedule CCR**

You should report $400 ($200 x 2) for the $200 subordinated security on line CCR505, "100% Risk-Weight: All Other Assets", to reflect a risk-weighting of 200%.

**Q&A No. 158**

**SUBJECT: Residual Interests**
**LINE(S): Schedules SC, CC, SI and CCR**
**DATE: March 20, 2002**

***Question:*** *We own a $100 nonsecuritized residual interest in the form of a credit-enhancing interest-only strip, as defined in 12 CFR Part 567.1. We recently acquired the residual interest in connection with the origination and securitization of a $1,000 pool of mortgage loans. All of the other beneficial interests in the securitized loans were sold to investors. In addition, we service the $1,000 in loans for the investors. Our Tier 1 capital, prior to any adjustment for this instrument, is $300. As a result, the $100 credit-enhancing interest-only strip exceeds 25% of Tier 1 capital of $75 ($300 x 25%). So, for Tier 1 leverage (core) capital, pursuant to 12 CFR Part 567.12, we must deduct $25 ($100 – $75). In addition, for risk-based capital, pursuant to 12 CFR Part 567.6, we must deduct or otherwise adjust for the remaining $75 ($100 - $25). How do we report amounts related to the residual interest in the TFR?*

**Answer:** An instrument such as this provides credit enhancement to other instruments, is related to an obligation to service loans for others, and is subject to specialized regulatory capital treatment. Therefore, in addition to reporting the residual on your balance sheet on Schedule SC, you should report this instrument on Schedules CC, SI, and CCR, as follows:

**Schedule SC, Statement of Condition**

You should report the $100 interest-only strip on line SC655, “Interest-Only Strip Receivables and Certain Other Instruments”.

**Schedule CC, Commitments and Contingencies**

You should report the $100 interest-only strip on line CC468, “Amount of Recourse Obligations on Assets in CC455”. In addition, you should report $1,000 on line CC455, “Total Principal Amount of Off-Balance-Sheet Assets Covered by Recourse Obligations or Direct Credit Substitutes”.

**Schedule SI, Supplemental Information**

You should report $1,000 on line SI390, “Loans Serviced for Others”. (Note: The full $1,000 security is reported as loans serviced for others. See Item 2 in the instructions for SI390.) Also, you should report the $100 interest-only strip on line SI402, “Residual Interests in the Form of Interest-Only Strips”.

**Schedule CCR, Consolidated Capital Requirement**

For Tier 1 leverage (core) capital purposes, you should report $25 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR133, “Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets”. The $25 reported here represents a deduction for Tier 1 capital. Also, you should report $25 of the interest-only strip on line CCR170, “Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets”. The $25 reported here represents a deduction for adjusted total assets (the denominator in the Tier 1 leverage (core) ratio).

In addition, for risk-based capital purposes, you may elect one of the following methods:

a. Under the “simplified” method, you should report $75 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR375, “Deduction for Low-Level Recourse and Residual Interests”. Under this method, CCR64, “Assets to Risk Weight,” will not include any amount related to this residual interest. The $75 reported on CCR375 represents a deduction for Tier 1 risk-based and total risk-based capital (the numerators in the risk-based capital ratios), in addition to the $25 deduction reflected on line CCR133.

b. If you elect the “super risk-weight” method, you should report $75 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR605, “Amount of Low-Level Recourse and Residual Interests Before Risk-Weighting”. On line CCR62, “Risk-Weighted Assets for Low-Level Recourse and Residual Interests”, the electronic filing software will compute $938 ($75 x 12.5). The $938 reported here represents an adjustment for risk-weighted assets (the denominator in the risk-based capital ratios), in addition to the $25 deduction reflected on line CCR133.

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**Q&A No. 159**

**SUBJECT: Loans Held For Sale**
**LINES: Schedule SC**
**Date: March 20, 2002**

***Question:*** *We recently decided to sell certain mortgage loans 1) that were not originated or otherwise acquired with the intent to sell, and 2) where the fair value has declined below the recorded investment, due to a decline in credit quality. At the time of transfer into the held-for-sale (HFS) account, we reduced the carrying amount of the loans to fair value. Consistent with the March 2001 "Interagency Guidance on Certain Loans Held for Sale" (TR-240), we reflected this reduction as a write-down of the recorded investment, with a corresponding reduction in the allowance for loan and lease losses (ALLL). Accordingly, line SC283, Allowance for Loan and Lease Losses on Mortgage Loans, does not include any amount related to these HFS loans. However, this treatment appears to be inconsistent with the guidance in the December 2001 AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others". Paragraph 8.c. of SOP 01-6 appears to prohibit a write-down prior to the transfer to the HFS account. Is the required treatment for TFR purposes consistent with generally accepted accounting principles (GAAP)?*

**Answer:** Yes. We believe that the required treatment for TFR purposes spelled out clearly in TR-240 is consistent with GAAP. However, we acknowledge that the language in paragraph 8.c. of SOP 01-6 could be interpreted to prohibit the treatment required by TR-240 referred to above. Paragraph 8.c. of the SOP reads: "At the time of the transfer [of the loans] into the held-for-sale classification, any amount by which cost exceeds fair value should be accounted for as a valuation allowance." It is unfortunate that the words "valuation allowance" were used in the statement quoted above from the SOP, rather than the words "reduction in carrying amount". Most GAAP authoritative pronouncements regarding credit loss allowances on loans do not address the timing of write-downs or charge-offs. Unfortunately, the SOP appears to do just that. However, as a result of our discussions with certain AICPA representatives, we understand the following: 1) the statement quoted above from the SOP was not intended to prohibit or prescribe write-downs of the recorded investment (resulting in a new cost basis), prior to the transfer into the held-for-sale classification; and 2) this clarification will be included in the AICPA's revised industry accounting and auditing guide that applies to savings associations (and various other forms of financial institutions). Accordingly, follow the guidance in TR-240.

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**Q&A No. 160**

**SUBJECT: Servicing Escrows**
**LINES: SC783**
**Date: March 20, 2002**

***Question:*** *We have demand deposit accounts for tax and insurance escrows and principal and interest custodial accounts that we hold for loans that are serviced by our parent holding company. Should these be reported as deposits or as escrows?*

**Answer:** Because it is your holding company and not the institution itself that has the escrow agreement with the owners of the loans, these accounts should be reported on your balance sheet as deposits. Escrows reported on SC783 should be accounts where the institution is a party to the escrow agreement.

**Q&A No. 161**

**SUBJECT: Qualifying Multifamily Residential Mortgage Loans – Maturity Requirement**
**LINE(S): CCR465**
**DATE: March 20, 2002**

***Question:*** *CCR465, 50% Risk Weight of Qualifying Multifamily Residential Mortgage Loans, requires that loans meet all seven of the criteria listed in our TFR instruction manual. Criteria #2 is "Original minimum maturity for repayment of principal on the loan is not less than seven years." Would a loan with a 5 year balloon loan and a 20 year period to full amortization qualify?*

**Answer :** This multifamily residential mortgage loan would not meet the criteria to qualify for 50% risk weighting. The criteria track a federal statute and are very specific as to minimum term.

**Q&A No. 162**

**SUBJECT: Qualifying Multifamily Residential Mortgage Loans – Payment History**
**LINE(S): CCR465**
**DATE: March 20, 2002**

***Question:*** *Re: 12 CFR 567.1, Qualifying multifamily mortgage loan.(1)(iii) "When considering the loan for placement in a lower risk-weight category, all principal and interest payments have been made on a timely basis in accordance with its terms for the preceding year;. . ."*

*We would appreciate your guidance in regard to whether or not loans that have been on the books less than twelve months, and paid timely, also qualify for the 50% risk-weight.*

**Answer:** We generally look for one year of history because this is in keeping with the statute.

**Q&A No. 163**

**SUBJECT: Investments in Nonoperating Entities**
**LINE(S): Schedule CMR**
**DATE: March 20, 2002**

***Question:*** *We recently made an investment in an SBIC (small business investment company). We report it with other investments on Schedule SC, line SC185. How should I report it on CMR? If it is considered a security, then I have to provide a rate and a WAM. However, the SBIC was just created and has not made any loans. We will share on a pro-rata basis in the gains/losses, once the SBIC is up and running. But at this time a yield is indeterminable.*

**Answer:** You may report the SBIC as an other asset (CMR543 – Misc I) until the SBIC is up and going.

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**GENERAL QUESTIONS AND SOFTWARE DISTRIBUTION**

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## TFR REPORTING QUESTIONS AND ANSWERS

If you have a question on TFR reporting, you may submit it to tfr.instructions@ots.treas.gov.

## COPIES OF TFR MANUAL

OTS provides one free copy of the TFR Instruction Manual and Financial Reporting Bulletins to report preparers of all OTS-regulated institutions. Additional copies of the manual and bulletins may be ordered from our distribution service at (301) 645-6264 at a cost for a one-year subscription of $35. You can also access the manual and bulletins on the OTS web site at http://www.ots.treas.gov/tfrpage.html.